

**KING COUNTY, WASHINGTON**  
**January 1, 1994 Through December 31, 1994**

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**Schedule Of Findings**

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1. Division Of Alcohol And Substance Abuse Officials Should Improve Accounting And Internal Control Procedures Over "In House" Cash Accounts

Our audit revealed accounting and internal control procedures governing "in house" cash accounts (funds held at outlying sites used to account for client generated revenues and related expenditures) at the Division of Alcohol and Substance Abuse (DASAS) were not strengthened or improved despite our disclosing significant weaknesses in the operations of the accounts at the Cedar Hills Alcohol Treatment Facility in our fiscal 1993 audit, Report No. 56290 - Finding 6. The following conditions were noted again this year:

- Segregation of Duties:

One person controlled the receipt of funds, cashed checks, recorded transactions on ledger sheets, maintained all supporting documentation for payments, had access to the safe, and performed reconciliations of the accounts. Many of these functions are incompatible and would present an individual with the opportunity to perpetrate and conceal fraudulent activity without detection or would allow inadvertent errors or irregularities to occur and not be detected in a timely manner.

- Safekeeping:

All funds are kept as cash in the safe. At the time of our audit fieldwork, there were no bank accounts established to account for resident moneys. Balances at hand for the in-house account generally range between \$2,000 to \$3,000. Because of the liquidity of cash, the amount on hand and multiple person access to the safe, the controls are not adequate to safeguard these funds from loss.

- Reconciliations:

The reconciliation process for trust accounts is not adequate. The system in use employs a cumbersome manual ledger system that, coupled with no bank account statements as noted above, resulted in unexplained and unexplainable out-of-balance situations.

Chapter 6, Paragraph 51 of the *Government Auditing Standards* defines internal controls as:

... the plan of the organization and methods and procedures adopted by management to ensure that its goals and objectives are met; that resources are used consistent with laws, regulations and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained and fairly disclosed in reports.

Inadequate systems of internal controls could present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection or would allow inadvertent errors or irregularities to occur and not be detected in a timely manner. Failure to follow established purchasing practices could lead to violations of bid laws, overpaying for goods or services, favoritism in vendor selection, and inaccurate recording in the accounting records.

DASAS officials indicated no changes were made to the existing system despite the serious weaknesses because they were uncertain whose responsibility it was to design and implement new procedures in response to our prior audit recommendations.

We recommend county officials, independent of DASAS, review the account activity and assist DASAS officials in establishing and implementing appropriate internal control procedures.

We further recommend all parties involved implement appropriate internal control procedures as soon as possible.

2. King County Officials Should Improve The Internal Control Procedures Over The Employment Of Temporary Employees At The Department Of Public Works

Public Works officials currently employ temporary employees when circumstances require part-time, project specific, or consulting services.

During our audit, we selected 38 personnel files related to temporary employees. The following conditions were noted:

a. Extension of Employment

In three of the files audited, Public Works' officials gained approval for extensions of employment from the Office of Metropolitan King County Human Resource Management (OHRM) director for employees utilized outside of their initial project hiring justification. OHRM directive requires temporary employment extensions only be provided employees who were not utilized elsewhere during the initial project assignment.

OHRM directives state in part:

Extensions will not be provided to temporary project employees who were utilized elsewhere during the assignment to the initial project. Neither will extensions be provided to temporary project employees for reassignment to other projects.

b. Working Outside Of Approved Employment Period

In five of the files audited, Public Works officials continued to employ temporary employees after the approved periods had expired. County OHRM directives require department directors to gain approval from the OHRM director prior to hiring temporary project employees. As a part of that approval, the period of employment is stated on the approval form.

OHRM directives state in part:

Department Directors will request the approval of OHRM Director to establish a slot as a temporary project slot prior to hiring.

Furthermore, OHRM directives state in part:

The temporary project employee's confirming letter will reflect the project nature of the assignment and will identify the end date of the appointment.

c. Working Outside Of Approved Duties

In auditing the labor charging practices of the temporary employees, we noted four project employees charging to projects outside of their approved scope. County OHRM directives require department directors to gain approval from the OHRM director prior to hiring temporary project employees.

OHRM directives state in part:

The temporary project employee's confirming letter will reflect the project nature of the assignment and will identify the end date of the appointment.

Additionally, OHRM directives state in part:

Extensions will not be provided to temporary project employees who were utilized elsewhere during the assignment to the initial project. Neither will extensions be provided to temporary project employees for reassignment to other projects.

d. Terminated Employees

In three of the files audited, the temporary employees were terminated. In all three instances, Public Works officials failed to delete the terminated employees from the centralized payroll system. The employees had not worked for the county since early 1993. This is a violation of good internal control practices. We verified the individuals did not receive payments for periods after their termination date.

The department's internal control procedures are not sufficient to ensure the temporary employment process is managed in accordance with county directives including appropriate approval of employment extensions, working within the approved employment period, and working within the approved employment scope. In addition, Public Works officials are not following established procedures to delete terminated employees from the centralized payroll system.

As a result of these situations, a temporary employment situation could result in the misappropriation of public funds if an employee was hired without appropriate approval; a temporary employee worked outside of the approved scope and employment period; or a warrant was generated for a terminated employee. In addition, inappropriately using temporary employment gives the appearance of not allowing equal community access to employment and procurement opportunities at public works.

We recommend public works officials improve control over the temporary employment process by:

- a. Following the established procedures for deleting temporary employees from the centralized county payroll system after their period of employment is finished.
- b. Managing the temporary employment process to include ensuring employees are working within approved employment scope and time period.
- c. Seeking approval from the OHRM director for employment extensions only under the conditions allowed for in county OHRM directives.

3. King County Officials Should Avoid Employment Arrangements Where Conflicts of Interest Appear To Exist

The Records and Elections Division is responsible for preparing the Local Voters' Pamphlet for County elections and subsequently directing the respective elections. Division officials entered into an on-going temporary employment arrangement with an individual to assist in the production and distribution of the voters' pamphlet. However, this individual hired her husband as an additional temporary employee, working under her direct supervision to support her efforts. Such an arrangement is in violation of the King County guidelines.

King County Code 3.12.020(C) establishes that:

The employment of members of the same family or other close relatives of county employees shall not be limited except where required by business or job-related necessity. For purposes of this section 'same family or close relatives' means the mother, father, son, daughter, granddaughter, and in-laws of county employee. For purposes of this section, business or job related necessity includes those circumstances where an employer's action are based upon a compelling and essential need to avoid business or job-related conflicts of interest, or avoid the reality or appearance of improper influence or favor. (Ordinance 4324 S 21, 1979)

King County Code 3.04.020(B) provides that a county employee shall deem to have a conflict of interest if the employee:

Is beneficially interested, directly or indirectly, in any contract, sale, lease, option, or purchase that may be made by, through, or under the supervision of the employee, in whole or in part, or accepts, directly or indirectly any compensation, gift, or thing of value from any other person beneficially interested therein.

Based upon our audit, Records and Elections Division officials have taken action to attempt to ensure this situation does not reoccur in the future.

The failure to follow established Employee Code of Ethics Policies may "present an actual or apparent conflict of interest between the public trust and private interest" which could erode public confidence in county government.

We recommend the Records and Elections Division officials continue their efforts to ensure conflict of interest situations do not occur and establish and communicate appropriate formal policies and procedures.

4. Department Of Metropolitan Services Officials Should Improve The Internal Control Policies And Procedures Over The Procurement Process

Our audit revealed Department of Metropolitan Services (DMS) officials were not following established policies and procedures over the procurement of temporary services. In addition, the established policies and procedures when combined with the actions of DMS officials appear to limit competition for temporary and professional services contracts by extending the original bid package to include managerial positions. We also noted DMS officials split some purchases to avoid the formal bidding requirements. Specifically:

- a. Blanket purchase orders, a type of purchase order where the per unit price is set but not the quantity to be ordered, are used to hire temporary services. These services included but were not limited to clerical, environmental planners, etc. Through the change order process, these blanket purchase orders have in some cases grown in excess of 500 percent of the original bid amount and extended over four years without additional competitive bidding or price analysis. For example, P.O. BB36402 with TAD Technical Services was issued May 13, 1992, for \$350,000 for two years. The original bid solicitation clearly defined the nine positions bid and contracted. Subsequent change orders approved by the director of purchasing added manager positions outside the scope of the original contract bid, increased the total contract value to \$2,354,130, (an increase of \$2,004,130), and extended the expiration date until May 1, 1996. Due to the additional managerial positions being included in the extension but not in the original bid package, they effectively were never competitively bid.
- b. For purchases between \$1,000 and \$15,000 outside of a blanket purchase order, DMS procurement procedures require documenting three quotes and emphasizes preference to Minority/Women's Business Enterprise (M/WBE) vendors. However, purchases under \$1,000 (Limited Purchase Orders - LPO) do not require obtaining quotes and only require a supervisor signature. The internal control testing of purchases under \$1,000 found six purchases split between two or three purchase orders to avoid the requirements for purchases over \$1,000.

Section 20 of Ordinance 11032 and *King County Code* (KCC) Chapter 28.24.010 states in part:

The procurement process shall ensure that equipment, materials, supplies and services are procured efficiently and economically, with maximum practicable competition, and in compliance with applicable state and federal laws and regulations.

Metropolitan services purchasing policy No. 5 states in part:

Purchasing shall provide for open and free competition and provide maximum opportunity to minority-owned, and women-owned businesses.

A purchase shall not be split into multiple smaller purchases to avoid requirements of this policy.

Department of Metropolitan Services officials indicated they did not have time to go through the lengthy bid process. Accordingly, they increased the existing blanket purchase contracts, extended period of performances, and added tasks outside the original bid scope without competitive solicitation to meet demand for temporary services.

Procurement policies are established by King County elected officials. Violation of those policies directly contradicts stated management intent. In addition, the change order process which does not appear to be sufficiently controlled to preclude large dollar and time extensions impairs competition. Splitting purchases to avoid procurement requirements also impairs competition. The lack of competition potentially inflates prices and restricts access to public work.

We recommend Department of Metropolitan Services officials improve temporary services requirement planning to allow time for the bidding process and define change order procedures to ensure changes are used appropriately.

We further recommend officials enforce compliance with established procurement policies.

5. Officials Of The Department Of Facilities And Construction Management Should Improve Internal Control Procedures And Follow Established Policies In The Design Consultant Selection And Contract Negotiation Process

Department of Facilities and Construction Management (DFCM) officials need to improve internal control procedures over their design consultant selection and contract negotiation process and operate in accordance with King County Policy 7-3-1, "Professional Design Consultant Selection." In addition, an Annual Financial Disclosure Statement should be filed by DFCM officials influencing the consultant selection and contract negotiation process.

The "Design Consultant" per King County policies is an individual or firm in the business of performing professional design-related activities such as architecture, engineering, landscape architecture or other professional design-related discipline. The design consultant selection and contract negotiation process are the procedures established by King County officials to select and negotiate such a contract with an individual or firm.

Our audit consisted of reviewing 25 contract files. The following conditions were noted:

a. Filing Of Annual Financial Disclosure Statements

The majority of DFCM officials influencing the design consultant selection and contract negotiation process did not file an annual Financial Disclosure Statement as required by King County Ordinance.

King County Ordinance 9704 SS 1, 1990 states in part:

It is the policy of King County that the private conduct and financial dealings of public officials and employees and of candidates for public office shall present no actual or apparent conflict of interest between the public trust and private interest.

Public confidence in government is essential and must be sustained by establishing and enforcing rules to assure the impartiality and honesty of officials and employees in all public transactions and decisions. Each affected agency of county government should inform its employees of the provisions of this chapter and strive to effectively enforce its requirements by seeking appropriate assistance from the office of citizen complaints, the board of ethics and the prosecuting attorney when considering and acting upon allegations of misconduct.

As a part of carrying out this policy -

All elected county officials; employees appointed by the county executive; all employees appointed by the deputy county executive, or department directors, and who are subject to the approval of the county executive; all employees of the council; and such public employees as may be determined by the board of ethics, shall file with the board of ethics within ten days of employment or appointment and on or before April 15 of each year thereafter a written statement of . . . . (Emphasis ours.)

The board of ethics, as defined, public employees required to file as:



Elected officials, department directors, division managers, court administrators, administrative assistants, confidential secretaries, exempt staff, County Council staff, all board and commission members, and those involved in negotiating or awarding contract . . . .

b. File Documentation

Twenty-three files did not contain all required documentation including the Minority and Women-Owned Business (M/WB) Availability Analysis Worksheet, insurance requirements as obtained from Risk Management, selection schedule, proof of advertisement, evaluation forms, rank order forms, letters of non-award, selection memorandums, selection consultant lists, and design commission evaluations.

King County Policy 7-3-1, "Professional Design Consultant Selection" states in part:

Centralized files shall be maintained by the Consultant Selection Administrator containing all information, correspondence, forms and submittal related to the selection of a Consultant for any project.

c. Adequate Competition

Information in one file revealed DFCM officials did not seek information and qualifications from at least three firms. Individuals in the firms listed as having been contacted indicated they had not received an opportunity to submit the requested information.

For projects up to \$10,000, King County Policy 7-3-1 directs the implementing agency to:

Contact by letter three or more Consultants including at least one minority or women-owned business.

d. Design Commission

Information in one file revealed the Design Commission was not utilized for a project valued over \$50,000 as required.

King County Policy 7-3-1, as it relates to King County Design Commission states in part:

The King County Design Commission shall make recommendations for design consultants projects for which the fee is \$50,000 or more.

DFCM official's failure to maintain adequate internal controls over the design consultant selection and contract negotiation process and failure to operate within established codes and policies could give the appearance the consultant selection process is not open to fair competition, including small disadvantaged and women owned businesses. Furthermore, it could place county officials at financial risks when verifications of insurance requirements are not obtained.

We recommend the Department of Facilities and Construction Management officials influencing the design consultant selection and contract negotiation process file annual financial disclosure statement as defined under King County Ordinance 9704 SS 1, 1990.

We also recommend the Department of Facilities and Construction Management officials improve internal controls over the design consultant selection and contract negotiation process by fully and consistently utilizing King County Policy 7-3-1, "Professional Design Consultant Selection" and documenting centralized files accordingly.

6. Department Of Metropolitan Services Officials Should Improve Accountability And Control Over Fixed Assets

Our audit revealed Department of Metropolitan Services (DMS) officials did not follow established policies and procedures over the accounting and control of fixed assets. Specifically:

- a. A total of \$513,710 in fixed assets has been purchased between January 1, 1993, and March 31, 1995, under capital project organization Nos. 1001 and 2001. The Procurement Management Division has not assigned a custodian organization for these assets as required by revised administrative policy No. 13.
- b. Based upon information in the fixed asset accounting records, we performed an on-site physical inventory of 190 computers and other attractive office equipment, valued between \$1,000 and \$5,000, at five locations. Fifty-two of the items in our sample could not be found, two of which were known to have been stolen. The remaining fifty items had been transferred, abandoned, or lost. No documentation existed to adequately track these assets despite the accountability documentation requirements established in DMS policies including revised Policy No. 13.
- c. Fourteen additional assets were found in surplus which were listed at their original location. No surplus documentation existed despite the requirements in DMS policies.
- d. The five asset custodians interviewed did not have a complete listing of assets identified to their organization nor had any of them performed a complete physical inventory of assets under their control. In addition, the custodians did not appear to be aware of the current policies or their responsibility to safeguard these assets. The custodians indicated they did not know they should notify accounting when assets were transferred, abandoned, or stolen.

Department of Metropolitan Services Revised Administrative Policy No. 13 states in part:

1. The Procurement Management Division will assign each fixed asset to a custodial organization at the time it is recorded as a fixed asset.
2. The supervisor of the custodial organization is responsible for safeguarding fixed assets and attractive assets against loss or theft.
3. The supervisor of the custodial organization is responsible for informing the Procurement Management Division by submitting a completed Request for Surplus Authorization/Fixed Asset Transfer form if a fixed asset is transferred to another location or disposed of in any manner.
4. The Procurement Management Organization shall coordinate fixed asset inventories.

DMS officials have established procedures for receipting, inventorying, transferring, and disposing of fixed assets; however, these procedures are not being followed nor enforced by management.

Without maintaining accurate fixed asset records, DMS officials cannot ensure proper reporting, safeguarding and accountability of county property and equipment.

We recommend Department of Metropolitan Services officials enforce adopted procedures to safeguard assets and ensure that appropriate accountability exists.

We further recommend officials train the custodians to prepare and maintain adequate inventory lists, perform the physical inventory, and complete the required tracking documentation.

We also recommend the Procurement Management Division identify custodial organizations for assets purchased under capital project organization numbers 1001 and 2001 and maintain a central listing of all assigned assets by custodian organization.

7. Public Safety Cash Management System Should Be Modified To Improve Data Security

Our audit revealed computer assigned audit numbers for transactions deleted from the computerized Public Safety Cash Management System (PSCMS) do not appear on the final printed reports. The only audit trail for audit numbers related to deleted transactions is the single page printout of the deletion which shows the original audit number. If this documentation is lost or misplaced, no audit trail would be provided. In addition, none of the reports currently produced by the PSCMS gives a listing of transactions by audit number.

The computer assigned audit number is a key control for the PSCMS because it accounts for all transactions entered into the system. Although prenumbered register receipt forms are used for cash receipts transactions, the audit number provides a control for all transactions entered into the system. Audit numbers for deleted transactions should remain on system reports identifying the transaction deleted and a report should be produced in audit number sequence to properly account for all system transactions.

In addition, we noted that changes regarding closing the cashier's file for a given day before posting the next day's receipt transactions and making system corrections using the disk operating system (DOS) have not yet been implemented. Consequently, changes and/or alterations could be made to the cashier's file without leaving a proper audit trail. Both of these situations have existed for several years. Department management indicates this is a top priority and has attempted to work with Metropolitan King County System Services to make appropriate modifications.

These system weaknesses present a high risk errors or irregularities could occur and not be detected in a timely manner, thus jeopardizing the integrity of the management information system.

We recommend public safety officials continue to work with King County Computer and Communication Services officials to make appropriate modifications to the Public Safety Cash Management System which will correct the noted weaknesses.

8. Public Safety Officials Should Deposit Forfeited Drug Seizure Funds In The County Seized Asset Savings Account In A Timely Manner

Our audit of the Public Safety Department revealed approximately \$120,000 located in the Drug Enforcement Unit's safe had not been deposited into the authorized trust account for use in drug seizure activities. This account is called the Seized Assets Savings Account. Cash is often retained by the Drug Enforcement Unit for periods ranging from two to six weeks (averaging approximately three weeks) before a deposit is made. Additionally, officials did not request or obtain a waiver from the treasurer for their practice of holding funds for extended periods of time prior to deposit.

The Washington State Constitution, Article XI, Subsection 15, states in part:

All moneys . . . belonging to or collected for the use of any county, city town or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depository . . . . (Emphasis added.)

RCW 43.09.240 states in part:

Every public officer and employee, whose duty it is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or with the treasurer once every twenty-four consecutive hours. The treasurer may in his or her discretion grant an exception where such daily transfers would not be administratively practical or feasible. (Emphasis added.)

To adequately safeguard these funds and to comply with applicable legal provisions, deposits should be made within 24 hours when significant amounts of cash are received.

Public safety personnel stated due to the accounting and administrative procedures involved, they are unable to deposit these funds more frequently into the savings account.

Public safety officials have a responsibility to properly manage the seized funds until their ultimate disposition. Failure to deposit these funds in a timely matter could cause the county to lose interest earnings as well as increasing the risk that a loss of public funds could occur.

We recommend seized asset funds be deposited in accordance with applicable legal guidelines into the seized asset savings account or a waiver from these requirements be obtained from the county treasurer.

**KING COUNTY, WASHINGTON**  
**January 1, 1994 Through December 31, 1994**

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**Schedule Of Federal Findings**

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1. King County Department Of Public Health Officials Should Develop Administrative Control Procedures To Ensure Payroll Charges To Federal Programs Comply With Federal Regulations

The King County Public Health Department's Labor Distribution System allocates payroll costs based on budgeted hours. Each pay period, supervisors are required to certify that the payroll charges are accurate. This is the single prescribed control for ensuring payroll charges to federal programs are based on actual employee time and effort. However, during our examination we found that 21 percent of the certifications for the Federal AIDS Activity Grant (CFDA 93.918) were not performed timely, and 83 percent of the certifications for the Ryan White Supplemental and Formula Grants (CFDA 93.914 and 93.915) were not performed at all.

*Uniform Administrative Requirements for State and Local Government* 45 CFR 92.20(b) establishes standards for financial management systems which includes in Section (3) which states in part:

Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Office of Management and Budget (OMB) Circular A-87, Attachment B.10.b. states in part:

Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs will be based on payrolls documented and provided in accordance with generally accepted practice of the State, Local, or Indian Tribal government. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used to produce an equitable distribution of time and effort.

Additionally, the Public Health Service (PHS) Division of the U.S. Department of Health and Human Services has issued a Grants Policy Statement. Section 7 under "Salaries and Wages" states in part:

Salary and wage costs are allowable to the extent that they are reasonable and conform to the established, consistently applied policy of the organization and reflect no more than the percentage of time actually devoted to the PHS-funded project.

This breakdown of the one prescribed control procedure can be attributed to management

resistance to additional responsibilities. In addition, the payroll unit assigned to monitor submission of certification forms has not performed this function since May 1994.

By not certifying payroll charges to federal programs, there are no controls to ensure accurate time and effort reporting. This could result in costs being billed to inappropriate programs, future questioned costs, and possible loss of federal funding. We did not question costs during the current period because by employing additional audit procedures at additional cost to the county we were able to obtain reasonable assurance payroll costs billed to the program were appropriate.

We recommend Public Health Department officials instruct the public health supervisors and managers to follow the established policies for timely certification procedures as prescribed, and the public health payroll unit enforce their monitoring responsibilities in a timely and aggressive manner.